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U. S. SECURITIES GOVERNMENT FINANCE ECONOMIC AND FINANCIAL CONDITIONS

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The Business Situation.

THE business situation has changed but little in the last month, and confidence in the future has not weakened. Bank clearings in manufacturing districts of the east are forty to sixty per cent. higher than a year ago, and in the cities more directly related to the agricultural interest twenty to forty per cent. Railway traffic could hardly be heavier with present facilities. The congestion is reduced to an extent that permits of a fairly expeditious movement of consignments, but there is still much unloaded freight at the terminals and a shortage of cars.

The fundamental conditions, which include full employment of the people, and an enormous production of commodities from original sources, were never better. Agricultural products and mineral products never before brought prices that were so remunerative to the producers, and the number of people directly engaged in these industries is very large. The lumber industry is also prosperous, although not to the extraordinary degree enjoyed by agriculture and mining. Manufacturing in practically all lines is working up to the limit of the available labor supply. Judge Gary, of the United States Steel Corporation, last week described conditions in the steel industry by saying that the orders being booked still more than covered the current production, and that business for fully a year ahead was in sight.

Building operations on a large scale are held in check by the high cost of materials, but there has been enough work of an emergency character to provide general employment in the building trades, and a large amount of work is in contemplation and will be released by a decline in prices.

There is a calmer, more conservative tone in all quarters, without any real let-up of activity. The labor troubles of May 1st have been adjusted for the most part, wage advances being numerous. In the machine-building trades, at Pittsburg and through the Ohio valley, there has been a serious controversy over the eight hour day, which the manufacturers vigorously opposed as unnecessarily restricting the output when an unusual volume of business was in sight. They appear to have defeated the movement.

It is evident that the whole country is doing business with a full appreciation of the fact that conditions are extraordinary and subject to change, and yet with a large degree of confidence in the future. There has been over-buying prompted by rising prices and fear of inability to get goods later, and this in some degree explains the unprecedented demand. Some of these purchases have come back upon the market, and more may do so as the time to take deliveries approaches, but the consumption of all staple articles of comfort is on a scale never equalled before. In lines in which production is being increased to take the place of foreign supplies, prices are tending downward, and in some lines in which high prices have ruled upon the public market regular customers are being served at but little above normal figures.

There is general recognition of the probability that a readjustment of prices will have to be made at a lower level after the war is over, and nobody intends to enter that period with heavy stocks if he can help it. If stocks are moderate it is believed that the readjustment will not be hard to make, for nobody expects prices to fall below the pre-war level, or even quite to it. The stocks of staple goods are low all over the world, and there can be no long-sustained cessation of buying. In this country it is evident that a large amount of construction work is being delayed by the high prices. The railways are still spending as little as possible, for either equipment or development, owing to the scarcity of labor and high price of steel, but they are assured of good earnings for a considerable period, and must eventually disburse large sums to make good the wear and tear of this heavy traffic and to enlarge their facilities to meet the growing requirements.

The crop season has been a little backward, but the soil has taken in a good amount of moisture, which is the most important factor in a crop. The acreage of wheat is reduced, but the country has carried over large stocks, and what the trade thinks of the prospects for the wheat supply may be judged by the fact that the price is 30 cents a bushel below what it was in the latter part of January. The corn acreage will be large,. and there is an evident determination

among farmers to get back to more cattle and hogs on the farms. Unfortunately, the stock of sheep is steadily dwindling, as the large ranches are broken up. The cotton acreage is eight or ten per cent. higher than last year and the plant is reported doing very well.

Government revenues are increasing and from internal taxes are exceeding all records. The income tax collected in this fiscal year is expected to reach $110,000,000, as against $80,000,000 last year. Reports from Washington indicate that the conferences among congressional leaders have resulted in an understanding on the new revenues to be required, probably $150,000,000 per annum, will be provided by super taxes upon incomes, taxes upon inheritances, and taxes upon munitions.

The Money Market.

The reduction of bank reserves in New York, which has been going on steadily since the latter part of January, has about reached the point where it must have some influence upon interest rates. The last Clearing House statement shows the surplus down to $67,733,000, which compares with $175,069,700 on January 29th. This reduction is due in only small degree to loan expansion. Loans have increased in the four months by $118,000,000, and a corresponding increase of deposits without change in the reserves would have reduced the surplus by about $21,000,000. The change has been effected in the main by a loss of reserve cash, which has fallen from $523,753,000 on January 29th, to $422,449,000 on May 27th. A large part of this went to the Treasury, the payments of the Clearing House to the sub-treasury on balance from February 1st to May 29th aggregating $74,331,325.88. There have been some exports of gold from New York to the West Indies and South America, and some segregation of gold for account of foreign banking institutions. The movement to the interior has absorbed the remainder, and enough more to offset the importations from Canada.

Payments into the sub-treasury during the month of June will be unusually heavy on account of the income tax, and as most of the banks are now down close to the 18 per cent. reserve limit, it may be expected that the price of money in this market will strengthen. There were pronounced symptoms of this last week.

This money, however, has not gone out of this country, or been permanently absorbed. After July 1st the government revenues will fall off and expenditures will be greater than income, and while disbursements are not made in New York to the same extent as collections, when made in any part of the country they will affect the general situation.

The interior is in a state of great financial ease, and even the interior reserve centers have been drawn upon but slightly by country banks for the spring activities. While nobody expects anything like tight money this year, the opinion strengthens that rates will be higher.

Foreign Trade and Exchange.

For the four months of this calendar year ending with April, the exports of the United States exceeded imports by the sum of $738,607,394. This rate, if maintained throughout the year, would give an excess in 1916 about $500,000,000 greater than that of 1915, and the question of how settlement for this vast accruing balance is to be made remains as interesting as ever. The expenditures of American tourists in Europe are no greater than last year, and the payments by this country on account of dividends and interest are considerably smaller than last year, for not only have many American securities been returned to this country, but there are important offsets of the same kind, as a result of the foreign loans made here during the last year.

London and Paris exchange has remained fairly steady during the past month, but the transfer of gold from the British store in Canada has been resumed, and during the month amounted to $23,200,000.

It has always been supposed that, if the situation required such action, the British government would resort to taxation as a means of compelling British investors to dispose of their holdings of American securities, and this step has now been taken. Notice has been given that a special tax of two shillings to the pound sterling will be levied upon all income from foreign securities which the government has offered to purchase, which amounts to an extra tax of ten per cent. It is assumed from this action that the offerings to the government, which came first from corporations and other large holders, have fallen off of late, and that the Treasury believes important amounts are still held in the country. Although the Treasury has been making sales from time to time in the New York market, it is not believed to have anywhere near exhausted its acquisitions, and the new announcement probably does not foreshadow unusual offerings here. The securities are wanted as a sure means of creating offsets in New York against the enormous purchases which the Allies are making, and they will be sold or used as collateral here, as credits are required. Meanwhile the current production of gold in British territory is about $20,000,000 per month, and this also is available for the same use. The holdings of the Bank of England are larger than a year ago, and this is true of the Bank of France also.

The British government has modified the terms of its offer to borrow American securities, so that in the event it becomes necessary to sell them the depositors will have the privilege of purchasing them.

The French government has followed the policy of the British government in mobilizing privately-owned securities to be used in creating foreign credits. Owners are invited, in the national interest and as patriots, to lend their securities to the government for one year with an option to the government to retain them from year to year to the end of the third year. Negotiable certificates will be given in exchange, owners will continue to receive interest or dividends and will be given a bonus

equal to one-quarter of such regular returns. Thus the lender of a four per cent. bond will receive five per cent. The offer applies to investments in neutral countries.

This action is understood to be preliminary to negotiations for a secured loan in the United States; at present French negotiations here are suspended.

One of the anomalies of the international situation developed by the war has been the action of the three Scandinavian countries in altering their banking laws to relieve the central banks of issue from the requirement to buy gold at a fixed price. This requirement is designed to facilitate gold importations, and it has seemed extraordinary for a country in a period of world disorder to withdraw any such facilities, even though economists clearly recognize the dangers of gold inflation. It would certainly be a difficult matter to get the Congress of the United States to pass any legislation of that kind.

A Christiana correspondent of the London Economist explains that the legislation was passed at the suggestion of the Scandinavian banks, not because these Banks do not want more gold, but because they wish to procure the necessary amount at the lowest possible price. "Why," says the writer, "should the Bank of Norway pay the price hitherto prescribed by law when it can procure gold from England or the United States six per cent. cheaper?"

This correspondent says that the stock of gold in the Bank of Norway on January 22nd was 114 million kroner, and that on April 22nd it had risen to 194 million kroner. This accretion is due to the enormous payments coming to Norway for ocean freights and its exports of fish and other articles. He adds: "The Norwegian kroner at the present moment has the proud position of having the monetary values of the entire globe under par with respect to its own value."

The Bond and Stock Market for May.

Bond prices during the latter part of May have improved all along the line, and contrary to the tendency in recent months, railroad bonds have shown as great an improvement as industrials and public utilities. The advance is especially noticeable in several second grade railroad bonds. This improvement has been aided by record railroad earnings, advancing market in railroad stocks, slackening in pressure of foreign liquidation, increased resources of American investors and a general absence of undigested securities. The advance in listed bonds has been accompanied by larger sales on the New York Stock Exchange. Daily transactions have reached over $5,000,000, and have averaged for the month about $3,876,000, compared with $3,307,000 in April, $3,023,600 in March and $2,571,000 in May, 1915. Total bond sales for the year on the Stock Exchange to the close of business May 25, were $449,000,000, against $398,000,000 in 1915. The proportion of State and Government bonds dealt in this year has been larger than usual, owing to the large sales in Anglo-French 5s.

The supply of new securities for this year to May 22, as figured by "The Annalist" including issues for refunding purposes, has been $1,093,743,000, compared with $1,053,019,000 for the same period in 1915. As the investment demand has been much greater this year than last, it is probable that without the overhanging shadow of foreign liquidation and the cautious attitude of American investors concerning economic conditions after the war, the rise in the price of high grade bonds would have been more decided. As long as the price of credit remains at current low rates, there is no necessity for business houses and institutions to liquidate their bond holdings. Although business activity continues at top notch, the importations of gold furnishing additional basis of credit and the reduction of the reserve requirements following the adoption of the Federal Reserve System have easily furnished banking reserves sufficient to take care of the increased commercial activity without any perceptible rise in money rates.

The largest refunding operations for June are $13,973,000 Delaware & Hudson convertible 4s and $24,773,000 Missouri Pacific Extended 6% notes. The Delaware & Hudson bonds were provided for several months ago, and holders of the Missouri Pacific notes have been asked to consent to an extension for six months. The remaining maturities consist mostly of equipment notes and public utility and industrial issues which have already been provided for, and in the present market cause no anxiety.

New financing during the past month has been unusually light, and hardly equal to the normal investment demand. An additional block of $8,000,000 New York Connecting Railroad 1st Mortgage 4½s have been taken by New York bankers. The bonds, in addition to being a first mortgage on the connecting line between the Pennsylvania and the New Haven, are also guaranteed as to both principal and interest by these companies.

Greater interest is being shown in foreign securities than has been usually the case among American investors. While this is a favorable sign, and will indirectly aid the extension of American trade, it is necessary that discretion be used in purchasing only securities of sound enterprises. The foreign fields offer many opportunities for investment, which will gradually be more and more appreciated by our people, but in order that such investments do not fall into disfavor, it is necessary that purchasers exercise care to secure conservative issues. These investments on the part of Americans, together with the re-purchase of securities from Europe and loans made to foreign countries, are going to materially lessen our remittances in the future for interest and dividends and will decidedly help to lower the invisible, unfavorable trade balance.

The stock market has been active during the latter part of the month, following a period of dullness in the early part. Sales reached over 1,000,000 shares May 19th for the first time since March 14th. The activity has been more pronounced in the railroads, which are now going

through an unusual period of advancing gross income. The operating expenses, due to higher cost of materials and increased wages are also rising, but not enough to consume all the increase in gross. These advances in expenses form an element of danger in the railroad situation as they cannot be correspondingly reduced when gross decreases. The motor stocks have attracted a large amount of attention, owing to the present prosperous condition of the industry. Speculative interest in these stocks has also been fostered by the successful financial reorganization of several companies during the last six months.

New Hawaiian Bonds.

During the month of May the Hawaiian Government sold $1,750,000 Hawaiian 4% bonds of 1936-46. They were issued to refund $1,000,000 Hawaiian 4¼% bonds of 1910-20 and $750,000 Hawaiian 4½% bonds of 1908-18. According to the daily statement issued by the Treasury Department, there are, at the present time, approximately $983,000 various Hawaiian bonds deposited in Washington as collateral for public moneys lodged with national banks throughout the country. A good many of these undoubtedly consist of the bonds which have been called for payment. In addition there are undoubtedly quite a few of the 4¼'s and 4½'s held in Washington as collateral for postal savings funds. As the interest on the latter bonds ceased on May 20th the owners should take immediate action to substitute other acceptable securities for them.

Postal Savings Banks.

The postal savings bank act has been amended in several details, the most important of which is the maximum limit upon interest-bearing accounts, now raised to $1,000. Permission is given for the deposit of these funds in banks not members of the Federal Reserve system in case there are no members in the locality willing to receive them upon the terms fixed in the law. The provision for security is modified to include, besides public securities supported by the taxing power, "other securities authorized by act of Congress," which was stated on the floors of Congress to particularly mean farm mortgage debentures, under the proposed rural credits law.

Postal savings deposits now aggregate about $80,000,000, which is indeed a very considerable sum, but hardly fulfills the expectations of the promoters of the system, who claimed that hundreds of millions would be brought to light from hoards.

The New Shipping Bill.

The new shipping bill, which has now passed the House is quite different from the one over which a prolonged contest occurred last year, but makes no stronger appeal to the shipping interests. In deference to the opposition to government ownership this measure provides that the corporation which it is proposed to form, and to which the government is authorized to subscribe $50,000,000, shall be dissolved and its ships sold within five years from the end of the European war. The government's investment is therefore, to be temporary, but a permanent Board of Shipping Commissioners is to be created, composed of the Secretary of the Navy, the Secretary of Commerce and five members appointed by the President with the advice and consent of the Senate, the appointed members to receive a salary of $10,000 per year. This Board is to have powers over common carriers by water analogous to that exercised by the Inter State Commerce Commission over the railroads. It will review all agreements between carriers and have authority to modify them and to fix rates.

There can be no dissent from the view that the United States ought to have more shipping under its own flag, and it would have been supplied long ago, but for laws which have made it much cheaper to use transportation facilities under other flags. Congress is apparently of the opinion that this state of affairs can be remedied by more restrictive legislation.

The government's investment of $50,000,000, can hardly be an important influence in the situation. The supply of tonnage can only be increased by the construction of new ships, and all the shipyards of this country, now, have their capacity sold out for more than a year ahead. The navy yards will be fully occupied also, with the construction program carried by the pending appropriation bills. It is altogether probable that before the government can provide any new ships ready for use the war will be over, and ships acquired in the meantime are very likely to entail a loss.

In normal times the business of operating ships in the carrying trade of the world is highly competitive. In the nature of the business it can be brought under the supervision of this government in only limited degree, and American ships must conform to the competitive conditions. There are various reasons why it is impracticable for ocean charges to be given the stability of railway rates, and the situation in many respects is so complicated as to make regulation by rule very dffiicult. It is urged that a government board will take all of the conditions into consideration and deal with them in a practical manner, and perhaps it will, but it can hardly be expected that government supervision will make the shipping business more inviting to investors. Private capital will distribute itself in the various fields according to the view that investors have of the opportunities for profit. They have not been attracted by the opportunities for profit in ocean shipping in the past, and this bill does not simplify the problem.

Silver.

The price of silver is down from the high mark of a month ago, New York quotations being now between 68 and 70 cents per fine ounce. With any assurance of permanence this price would stimu-

late silver mining and symptoms of new activity are appearing. Silver production in recent years in the United States has been mainly as a by-product of copper and lead, the Anaconda copper mine being the largest silver mine in the country.

Silver as a standard money metal had its first serious backset when the German empire was formed and the independent monetary systems of the German states gave way to the imperial system with gold as the standard. The old silver coins were called in and melted, and much of the bullion sold. About the same time, in a revision of the coinage laws, the silver dollar was dropped as a standard coin of the United States, leaving the gold dollar as the sole unit of value. This action was of little practical importance at the time, as the country was using nothing but paper for money, but with the passage of the resumption act and the continued decline of silver it became a matter of great financial and political importance. The Comstock Lode in Nevada was making its bonanza output, and the supply of silver on the markets of the world was so great that it could not be absorbed at the old parity with gold, which had been about 15½ to 1 at the mints of Europe and 16 to 1 in the United States. In 1873, Belgium, France and the Scandinavian union suspended the coinage of silver as standard money, and in 1875 Italy and Holland followed suit.

The resumption of specie payments was to take place in the United States on January 1, 1879, and in 1878 the House of Representatives passed an act providing for the restoration of the silver dollar to our monentary system, and for its free coinage along with the gold coins at the ratio of 16 to 1. This would have given a coinage value to silver on private account of $1.29 per ounce, while the market value at the time was about $1.20 per ounce. The Senate amended the House (Bland) bill by providing for the purchase by the Treasury of from $2,000,000 to $4,000,000 worth of silver bullion per month, for coinage into dollars, on government account. This act, known as the Bland-Allison act, continued in force until 1890, by which time the market value of silver bullion had fallen to 96 cents. In 1890 the Sherman act was passed, increasing the silver purchases to 4,500,000 ounces per month, and under the stimulus of this legislation the price rose to $1.21 per ounee, but soon fell back below the price prevailing when the act was passed. The average price paid by the treasury in 1890 was $1.104 per ounce; in 1891, $0.989 per ounce; in 1892 $0.875 per ounce, and in 1893 $0.804 per ounce. In June, 1893, the mints of India were closed to the coinage of silver on private account, and on the 30th of that month the price in New York fell to the lowest figures known up to that time, $0.664 per ounce. A few months later Congress was convened in extra session by President Cleveland for the repeal of the Sherman act, and the bill to that effect became a law on November 1, 1893. Since the bullion acquired by that act was exhausted no silver dollars have been coined.

The world's production of silver was not curtailed by the falling price, owing to improvements in mining methods and metallurgical processes, and, even more, to its increased production in company with other metals. The world's production in 1892 was 153,000,000 ounces, and it has not been so low as that in any year since. In 1913 it was officially estimated at 223,907,000 ounces, and although reliable figures for 1915 are not yet available the best opinion places the yield for that year below 200,000,000 ounces.

The four leading countries in 1913 were Mexico, with 70,000,000 ounces, the United States with 67,000,000 ounces, Canada with 31,500,000 ounces and Australia, with 18,000,000 ounces. Mexico normally produces approximately one-third of the world's silver, and it is probably yielding about one-half its normal production at this time. The mines and smelters in the northern part of the country are closed, but those in the southern part are being worked actively.

The exports of silver from the United States in the ten months ending with April exceeded the imports by $20,707,245, which compares with an excess of $19,096,387 in the same months of last fiscal year and $18,731,765 of the fiscal year 1914.

The immediate cause of the rapid rise, as we have heretofore explained, is the imperative demand from the mints of Great Britain, France, Italy, and Russia for bullion for their subsidiary coins. The British mint coined $39,000,000 worth of silver in 1915, as compared with an average coinage in the last ten years of less than $5,000,000. The French mint which ordinarily coins from $1,500,000 to $2,000,000 of silver annually will this year coin ten times as much. The explanation is to be found in the fact that these countries are trying to conserve the use of gold by holding it in the reserves, and the public takes more kindly to silver than to paper currency.

In addition to the European demand the demand from India, which has been light since the outbreak of the war, has been increasing in recent months. Large shipments have been made to India from Chinese stocks, but these are now low. The purchase has been recently announced of several million Philippine pesos to be melted for Indian coinage. Presumably these are of the first Philippine coinage, which was retired in 1906 when a spurt in the price of silver carried the bullion value above the face value.

All that can be said about the silver situation is that it is created by the war conditions in Europe and Mexico, and cannot be counted upon as permanent. It is improable that any of the European countries will reinstate silver as a standard metal with gold; there are too many practical objections to the double standard. When the war is over the countries with inflated issues of paper currency will have them speedily reduced by conversion into interest bearing bonds, and will doubtless bring the remaining paper back to approximately the gold par as soon as possible.

The rise of silver is beneficial to China, where

wages and prices are in silver currency, increasing the purchasing power of the people, and will stimulate outside trade with that country if internal conditions are not too unsettled to prevent the natural effects. Reports from Japan indicate that the influence is already noticeable.

Early in May the exportation of silver from Mexico was prohibited for a few days, but this order was succeeded by an export tax, the burden of which falls of course upon the Mexican producer.

Branch Banks Abroad.

Another foreign branch of this Bank was opened last month at Santiago, Cuba, and arrangements have been completed for the opening of others, at Valparaiso, Chile and Genoa, Italy, at an early day. Agencies are also determined upon at Bahia, Brazil and Milan, Italy.

The International Banking Corporation, which is closely affiliated with the Bank, now has branches in London, Bombay, Calcutta, Canton, Singapore, Cebu, Hankow, Hong Kong, Pekin, Shanghai, Tientsin, Yokohama, Kobe, Manila, Panama, Colon and Medellin (Colombia).

Trade With South America.

Trade between the United States and South America is now showing a good degree of expansion, notwithstanding the many difficulties which attend upon efforts over sea at this time. Shipping charges are high and vessel room is hard to get for bulky freight like lumber and coal, the sale of which might be largely increased. Imports make a better showing than exports amounting, for the eight months ending with February, to $239,424,555, compared with $138,172,031 in the corresponding months of 1913-14, before the war. Our exports for the same eight months to all South America were $112,710,108, as against $89,410,238, in the corresponding months of 1913-14. It should be considered that this showing might be a great deal better if our people were ready to take advantage of the opportunities now existing. The revival of trade in the United States has been so rapid and general since last fall that American manufacturers have been kept busy by old customers and had little inducement to look abroad for new ones. They are not indifferent to the possibilities of the South American market, and not a few of them are deliberately making sacrifices to maintain and enlarge their acquaintance there, confident that in the long run it will pay. Business conditions all over South America are gradually improving. Our cable from Buenos Aires received May 31st gives the imports of that country from all countries for three months, 52,000,000 gold pesos, and exports for same months to all countries, 127,000,000 gold pesos. This is about the same ratio maintained for the year 1915. Brazil in 1915 exported $257,000,000 worth of products and imported $146,000,000. This one-sided trade indicates that both countries are paying foreign indebtedness.

The Federal Reserve System.

The Federal Reserve Board, after cautious approaches, has finally determined to deal in a conclusive manner with the matter of check collections, recognized from the first as the most difficult problem connected with the inauguration of the Federal Reserve System.

The rapidly increasing use of the personal check for payments at a distance has been a source of perplexity for years, and bankers have pondered over how to deal with the abuses of the practice without being able to reach any common ground. It has been generally recognized, however, that the system, or want of system, under which personal checks to the amount of many millions of dollars were constantly floating about the country in the mails, traveling by circuitous routes, multiplying bank entries, inflating deposits, and counting as bank reserves, was not only costly and inefficient, but a source of weakness in the banking situation. Whatever may be said in favor of moderate exchange charges, and much may be said in justification of them, the workings of the old, unregulated, system were unsatisfactory, and it was inevitable that in any attempt to give a closer and more effective organization to our banking system, this question of clearing checks and regulating exchange charges would be considered.

The original purpose of the authors of the Federal Reserve Act seems to have been to make checks a circulating currency, absolutely good at par everywhere, without recognizing that transfers of money may be necessary for the settlement of balances. The provision allowing a charge to cover actual cost was prudently added after the introduction of the bill.

The Federal Reserve Board has now taken action, as authorized, to provide as complete a clearing system as can be devised under its authority. Each Federal Reserve Bank will receive at par from its member banks, checks drawn on all member banks, whether in its own or another district, and also checks on non-member banks where they can be collected at par. As rapidly as possible the system will be extended to include non-member banks. All member banks will be required to remit for their own checks at par, but where it is necessary for them to ship lawful money or Federal Reserve notes, because of inability to draw on the Federal Reserve bank or furnish offsets, this may be done and the expense charged to the Federal Reserve bank.

Checks remitted to a Federal Reserve bank will not count as reserve or be subject to check until collected. Unless it is claimed that the required cash reserves are unnecessarily large it must be conceded that this rule is a sound one. This "float" if permitted to count as reserve, would all come out of the cash of the reserve bank and would seriously impair its strength. The reserve required to be kept in the reserve banks by the members outside of the reserve and central reserve cities will

be only five per cent. of their deposits when the law is fully in effect.

The cost of the collection system will be charged back to the members upon the basis of volume of business handled.

The new regulation will take effect July 15th, next.

Effect of the Plan.

The regulation will put into effect a simple and direct clearing system between the banks included in the Federal Reserve System, and do away with exchange charges between these banks. It also does away with the practice of counting checks in the mails as reserve. It cannot be questioned that these are improvements in banking practice, but the old practices have been long established, the banking business has developed under them and is adjusted to them, and the changes will seriously affect the earnings of many of the smaller banks. It should be said, however, that a great many banks of the same class as those which object to the regulation, do not object to it, but approve of it as sound policy.

The use of the check is established, it is a convenience appreciated by the public, and as such a most influential factor in the development of the banking business. It is good banking service to facilitate its use, and for the banks to co-operate with each other in a systematic manner to that end. They have not been able to do so in the past and never will be able to do so without having the terms regulated by some common authority. It will hardly be questioned that reluctance to give up the charge upon a bank's own checks is chiefly due to the fact that it is a charge paid by a stranger instead of by a customer, and this very fact makes the practice subject to abuse.

The Federal Reserve Act was designed for a large purpose, to wit, to bring the banking units of the country into an organization which would be capable of affording protection from the peculiar perils to which the business is naturally subject and also enable them to more effectively serve the public. Notwithstanding differences over details of the system there is almost universal agreement that it has the powers to accomplish these main purposes, and this being so the situation calls for patient and loyal co-operation to this end. It is obviously impossible to change long-established methods in order to bring about such co-operation without some unwelcome effects. The banks in the larger cities, which have performed the functions of reserve agents, are radically affected by the new system, but they have accepted it in good faith and are supporting it because they believe it will give a unity and efficiency to the banking system which it did not have in the past and which is of vital importance to all business interests.

It is of course necessary that the banks of every class shall make adequate earnings upon their capital and be fairly compensated for every kind of service. While the readjustments are going on some of them may be unfavorably affected, but the volume of business is growing constantly, and that in itself will remedy some of the ills complained of. If income is reduced from one source by a rule which applies to all banks, the natural result will be for all to seek compensation elsewhere, and under such conditions they are likely to find it, even though competition be sharp.

The Federal Reserve System is undoubtedly passing through its critical period at this time. There has been little opportunity to use its services or for it to show its usefulness, and to date it has been a burden to the banks, and a competitor, in a period of low earnings. This, however, is too large an enterprise to be judged of impatiently, or to be acted upon from the standpoint of individual interests. The Federal Reserve System is something to be supported, studied, modified and perfected, but without a thought of abandonment. If the bankers of the country cannot agree together to do this, how would they ever get together to make a new beginning?

Increased Earnings.

The total earning assets of the Federal Reserve banks on May 27th were $173,801,000, as against $30,041,000 on May 28, 1915, and $87,398,000 on December 30, 1915. It is apparent from what the banks are doing now that with a very moderate change in the money market toward higher rates all of the reserve banks will be able to earn and pay dividends upon their capital.

On May 16th another payment of reserves into the system took effect, and reserve deposits have increased from $413,000,000 on April 28th to $476,600,000 on May 27th, and total cash reserves from $323,193,000 to $359,111,000.

Farm Mortgages.

In our May Bulletin, referring to a reported dearth of farm mortgages on the market, and to the fact that comparatively few farms have been changing hands, the conclusion was drawn that farm mortgages are "usually incidental to changes of ownership." Possibly the form of the statement was too sweeping, but at any rate it has drawn out an interesting letter from Mr. R. P. Sherer, Vice-President of the Northwestern Trust Company, of St. Paul, who writes us as follows:

> On reading the above we were struck by the fact that conditions in our locality did not conform to the general statement you made and in order to confirm the impression, we had some statistics prepared which proved interesting to us. We give them below, as we think you will also find them of interest as being indicative of conditions in our territory. For our purposes we examined the applications covering about $1,000,000 face amount of loans made by us early this year in Minnesota, North and South Dakota and Montana. The average amount of each loan was approximately $3,800.
>
> We have divided the purposes for which these loans were made into five classes as follows:
>
> 1. On account of change of ownership, 15% for payment of farms recently purchased and 4% for payment of contracts made some time previously. Thus you will see that only about 19% of the loans were made on account of change of ownership.

2. For improvements. This includes all loans made for improvements only. The loans made on this account were 17%.

3. In this division we have placed the loans which have arisen through the renewal of existing mortgages and in addition thereto the needs of funds for either improvements or live stock or both. The educational campaign which has been carried on among the farmers of this section for some years looking toward the increase of live stock has no doubt caused some of this demand for funds. This division covers 16% of the total.

4. For outside investments a few loans are made for the purpose of investing funds in outside operations. From the list we have selected 5% of the whole amount for this reason.

5. Renewals of old loans. In our territory this is the reason for the making of a large proportion of the loans and is shown by the fact that 43% were negotiated on this account. We might say incidentally that of these renewals the majority are made for the same amount as the old loans. Probably only 25 or 30% of the above amount were for a lesser amount than for the previous mortgage.

The large proportion of the above loans were made in North Dakota and Minnesota, probably 80% of the total. The rates to the borrower averaged from 5½ to 7%, the average being close to 6¼% for funds. These were in turn sold to the investor at from 5 to 6%, an average of approximately 5½%.

The above analysis of approximately $1,000,000 in mortgages we believe to be an average list, and is fairly representative of conditions throughout the Northwest.

We appreciate that conditions in other sections are quite different, and that in the Central West mortgages are more often made on account of change of ownership. Referring again to your comment quoted above we might also note that applications for loans in this section are in the same volume as usual and that the apparent diminished supply is due only to the increased amount of money seeking investment through this channel.

The Rural Credits' Bill, which is the outcome of the work of the Congressional committees and the joint commission upon the subject, passed the Senate on May 3rd, and passed the House in amended form on May 15th. It is now in conference over the amendments. The House measure reduces the membership of the government Farm Loan Board from five to three, and the salary of a member from $10,000 to $7,500 per annum. It raises the required capital of each of the twelve Farm Land Banks from $500,000 to $750,000, and makes other alterations of detail in the Senate plan, but the general scheme remains the same.

Cotton Goods Industry.

The two great associations of manufacturers of cotton goods in the United States, the "National Association" and the "American Association," have held very successful conventions recently, the former at Boston and the latter at Atlanta, and both gave evidence that the industry is in a prosperous and aggressive state. It is probable that not many people know of the remarkable development of this industry, particularly since 1899. The census figures for the industry since 1859 are as follows:

Year	No. of Establishments	Wages	Value of Products
1859	1,091	$ 23,940,108	$115,681,774
1869	956	39,044,132	177,489,739
1879	756	42,040,510	192,090,110
1889	905	66,024,538	267,981,724
1899	1,055	86,689,752	339,200,320
1904	1,154	96,205,796	450,467,704
1909	1,324	132,859,145	628,391,813

The marked growth of the industry in the Southern States is one of the most interesting features of its development, and that is shown by the following table of spindles in operation on September 1st of each year in the Southern and Northern States:

THOUSANDS OF SPINDLES IN OPERATION ON SEPTEMBER 1st.

Year	In Southern States	In Northern States	Total United States
1859	324	4,912	5,236
1869	328	6,804	7,132
1879	561	10,092	10,653
1889	1,570	12,814	14,384
1899	4,368	15,104	19,472
1904	7,631	16,056	23,687
1909	10,494	17,773	28,267
1914	12,711	19,396	32,107
1815	12,956	19,008	31,964

The wages per operative per annum, as reported by the Census Bureau, are shown below:

Year	No. of Establishments	Capital Employed	No. of Wage Earners	Wages		Increase
1899	1,055	$467,240,000	302,861	$86,690,000	$286.24	.....
1904	1,154	613,111,000	315,874	96,206,000	304.57	6.4%
1900	1,324	822,238,000	378,880	132,859,000	350.66	15.1%

The tendency of increasing wages shown by the preceding table has been continued in the Southern States by gradual increases as the industry expanded and the Northern States by definite wage increases, which, since 1910, have been as follows:

A general increase of 10% in April, 1912, and a further increase of 5% in January, 1916, and a recent advance made in May, 1916, amounting to 10%, so that wages today in the cotton industry are at a higher point than ever before. While increases in the various localities differ slightly from the percentages above mentioned, these may be fairly taken as an average rate of such increases throughout the North.

The last ten years have also shown a marked decrease in the hours of labor, both in northern and southern mills, these adjustments of hours generally taking place without a reduction in the weekly pay of operatives.

Attention may be called to the improvements in cotton mill machinery during the last generation which accompanied increased wages and reduced hours. Such changes have, with few exceptions, been the improvement of existing processes of manufacture rather than the introduction of new processes. Among the most prominent of such changes may be noted the general introduction of the revolving flat top card, originally developed in England but manufactured and installed in this country, beginning in 1886 and becoming the standard machine in use between that time and 1895. This improvement resulted in an increased production in the same manufacturing space, together with a reduction in the amount of waste made.

Another improvement was the development in this country of the modern high-speed spinning spindle. The installation of this began in the mills about 1880, and resulted in largely increased production and the gradual elimination of the more expensive process of mule spinning.

The most recent improvement has been the development in this country and the introduction of the automatic loom, occurring between the years 1895 and 1900. This has materially decreased the cost of production, at the same time increasing the wages of the operatives employed.

Improved fire protection, new methods of lighting and modern appliances for safety and sanitation have also marked the development of cotton manufacture during the last two decades, which improvements have resulted in increased product to the mill and at the same time marked improvements in working conditions to the operatives.

The development has involved a constant increase in the amount of capital employed. In 1830 the capital investment was $651 per employe; in 1880 it had risen to $1,207 per employe; in 1899 it was $1,545, and in 1909 it was $2,435.

The British Budget.

The British fiscal year ends March 31st, and the Budget submitted by the Chancellor of the Exchequer to Parliament early in April is of much interest as forecasting the expenditures and revenues of the government up to that date in 1917, and showing his calculations as to the public debt at that time. Converting the Chancellor's figures into dollars at $5.00 to the pound sterling, he states that the pre-war debt was $3,255,000,000, the additions to March 31, 1915, aggregated $2,290,000,000, and the further additions to March 31, 1916, aggregated $5,155,000,000. The total debt at the latter date therefore stood $10,700,000,000, but as an offset to this the British government had made advances to allies and colonies amounting to $1,800,000,000. He estimates that if the war continues to March 31, 1917, the total debt will be $17,000,000,000, with advances to allies and colonies of $4,000,000,000. The net debt upon this calculation, will be $13,000,000,000, which with inteerst at five per cent. will entail an annual charge of $650,000,000. The government expenditures for the last full year of peace, excluding the debt charge, were $865,000,000. The realized revenue for the year ended March 31, 1916, was $1,650,000,000, and the Chancellor proposes new taxation which is expected to raise the total revenue for the year ending March 31, 1917, to $2,545,000,000. This calculation includes $430,000,000 from the excess profits tax. The ordinary pre-war expenditures, plus $650,000,000 interest and $100,000,000 for pensions, would make a total of $1,615,000,000, as the total annual requirements of the British government after the war, provided the war ends by March 31st, 1917. The excess profits tax will naturally disappear with the end of the war, and the Chancellor figures that it will be possible to make some further reductions in the war taxes and still provide for a one per cent. sinking fund, which would extinguish the entire debt in 37 years; this, however, upon the assumption that the war ends by March 31, 1917.

Although the taxation is enormous, it still affects but few necessaries. The duty upon sugar, about 3 1-3 cents per pound, is the most serious item of this class. The duty upon tea is 24 cents per pound, upon coffee 10 cents, chicory about the same, cocoa 12 cents. There is a tax of eight cents upon 1,000 matches, and a small tax on dried fruits. This is the entire list of taxes upon necessary articles of consumption, including the Chancellor's latest proposals, but not including beer, spirits and tobacco, upon which heavy increases have been made. There is also a tax upon entertainments, ranging from 1 cent to 24 cents for each admission, according to the price of admission. During the Boer war the government resorted to a tax upon wheat, but it has not done so in this instance, or upon flour or meat, or fuel, or the materials of clothing, house-building or house-furnishing. There are no direct taxes upon real estate except for local purposes.

This is not much like the taxation in England following the wars with Napoleon, when Sydney Smith, writing for the *Edinburgh Review,* penned the following famous paragraph describing the situation:

> "Taxes upon every article which enters into the mouth, or covers the back, or is placed under the foot—taxes upon everything which it is pleasant to see, hear, feel, smell, or taste—taxes upon warmth, light, and locomotion—taxes on everything on earth, and the waters under the earth—on everything that comes from abroad, or is grown at home—taxes on the raw material—taxes on every fresh value that is added to it by the industry of man—taxes on the sauce which pampers man's appetite, and the drug that restores him to health—on the ermine which decorates the judge, and the rope which hangs the criminal—on the poor man's salt, and the rich man's spice—on the brass nails of the coffin, and the ribands of the bride—at bed or board, couchant or levant, we must pay. The schoolboy whips his taxed top—the beardless youth manages his taxed horse, with a taxed bridle on a taxed road;—and the dying Englishman, pouring his medicine, which has paid 7 per cent., into a spoon that has paid 15 per cent.,—flings himself back upon his chintz bed, which has paid 22 per cent.—and expires in the arms of an apothecary who has paid a license of a hundred pounds for the privilege of putting him to death. His whole property is then immediately taxed from 2 to 10 per cent. Besides the probate, large fees are demanded for burying him in the chancel; his virtues are handed down to posterity on taxed marble; and he is then gathered to his fathers,—to be taxed no more."

The working classes of England are living now under an enhancement of prices resulting from other causes that is much more serious to them than all the taxes they pay. Thus the London Economist shows that the average of all food prices is now about fifty per cent. above the pre-war level. From this situation there will be a relief after the war is over which will make such new taxes as have so far been imposed seem comparatively light. In fact the increase of living costs in the United States on account of the war has been much greater than that caused by taxation anywhere.

After the war the government debts which are

payable, doubtless will be refunded at a ratio which will effect a saving sufficient to care for the sinking fund.

War Losses.

The Budget affords the basis for more definite calculations than have been made heretofore of the effects of the war and war debts upon industry and social conditions, and such calculation confirms the growing opinion that although the waste of current production is very great the after effects will not be so serious as commonly believed.

In order to be poorer in capital at the end of the war than at the beginning, a country must have lost by the destruction or deterioration of its physical properties, by realizing upon investments abroad, or the creation of foreign debts, or by the reduction of its stocks of goods and supplies. It will not lose ground by having grown crops and consumed them, or by having made war supplies and consumed them, or by having created debts which are held by its own people, for these operations offset themselves without changing the position of the country.

The productive equipment of even the warring countries is not upon the whole being greatly impaired. The class of property suffering most is shipping, and the world is building ships almost as fast as they are being destroyed. No doubt many kinds of property are not fully kept up at this time, but on the other hand there is important enlargement of capacity in some lines, noticeably in the steel industry.

The enormous war expenditures are accepted as signifying a corresponding waste of capital, but these expenditures for the most part represent present labor and production rather than accumulations. The manner in which Great Britain's exports hold up show that there must have been a very great gain in the efficiency of the population. Labor-saving machinery is being used, women have entered offices and shops, everybody is working harder, and industry has been speeded up as never before. A portion of the loss is overcome in this way, a portion is met by reduced consumption brought about all over the world by higher prices, and a still larger portion is accounted for in the check given to constructive work all over the world. The more the situation is studied the clearer it will appear that the losses are being very widely distributed and to a great extent covered during the progress of the war.

The loss of skilled workmen and the consequent disorganization of industry would seem to be the most serious of all the consequences, but against this must be set the gains in efficiency which are even now taking place, under the pressure of the emergency. An experience that stirs and stimulates an entire people is likely to have far-reaching influence upon their ambitions and capabilities.

(Continued on page 11)

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS MAY 26, 1916.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas.City	Dallas	S.Fr'sco	Total
Gold coin and certif's. Settlement fund. Cr. Balances	7,042	142,261	6,709	12,180	5.155	6.483	37,658	5,876	6.142	4,234	3.859	5,386	242,985
Gold Settlement Fund.....	10,381	2,045	14,881	11,217	13,072	4,714	3,877	4,419	4.711	7,538	9,033	6,103	91,991
Gold Redemption Fund ..	5	561	50	70	464	478	200	51	30	60	184	10	2,163
Total gold reserves..	17,428	144,867	21,640	23,467	18,691	11,675	41,735	10,346	10,883	11,832	13,076	11,499	337,139
Legal tender notes. Silver certif's and Sub. coin....	334	14.441	736	1,061	184	343	2,127	995	673	186	884	8	21,972
Total Reserves......	17.762	159,308	22,376	24.528	18,875	12.018	43,862	11,341	11,556	12,018	13,960	11,507	359,111
Bills discounted, Members Commercial paper	136	324	812	301	5 344	3.028	1.809	905	658	1,806	4,837	405	20,365
Bill bought in open market	10.334	17.595	8.736	2,791	806	1,239	3.059	2,139	1,360	1.278		3,371	52,708
Total bills on hand..	10,470	17.919	9.548	3.092	6,150	4 267	4.868	3,044	2,018	3.084	4,837	3,776	73,073(c)
Investment U. S. Bonds...	3,082	3.489	3,538	6,352	1,605	2,034	9,753	2,959	3,344	9,311	2,866	3,609	51,942
One-year U.S. Treas. notes	250	1,532	462		456			380	350	410			3,840
Municipal Warrants.......	4,244	17 100	4,079	5,677	60		5.810	1,749	2.078	1,308		2.850	44,946
Total Earning Assets	18 046	40.040	17.627	15,121	8.271	6 301	20.422	8,132	7,790	14,113	7,703	10,295	173,801
Federal Reserve Notes, net	1,054	13,986	138	530		1,402	1,615	1,049	1,803			4,856	26,438
Due from other F.R. Banks net.......................	4,660		4,062	1,359	1,602	240	7,616	1,179	751	1,477	230	2,131	16,512(b)
All other resources........	161	3.581	211	480	175	982	545	471	127	994	1.663	23	9.493
TOTAL RESOURCES.....	41,683	216,915	44.414	42.028	28,923	20,943	74.060	22.172	22,027	28,602	23,556	28,822	585.350
LIABILITIES													
Capital Paid in............	4.943	11 283	5,216	5,906	3.350	2.469	6,672	2,794	2.574	3,003	2,675	3,930	54,875
Government Deposits.....	1,826	8,753	3,082	1.190	6,358	7.490	2,923	2,778	678	865	6.236	1.952	44.131
Reserve Deposits, net.....	34,861	188,084	36,116	34,872	15,052	10,866	64,465	16,600	18,775	22,257	11.792	22,940	476,680
Federal Reserve Notes-net					4,108					745	2,853		7,706(a)
Federal Reserve Bank Notes in circulation.....										1,732			1,732
Due to other F. R. Banks net.......................		8,795											
All other Liabilities.......	53				55	118							226
TOTAL LIABILITIES	41.683	216.915	44,414	42.028	28 923	20,943	74.060	22.172	22.027	28.602	23 556	28.822	585,350

(a) Total Reserve notes in circulation, 159.389.
(b) After deduction of items in transit between Federal Reserve Banks, 16.512, the Gold Reserve against Net deposit and note Liabilities is 65.8% and the cash reserve is 70.1%. Cash Reserve against net deposit and note liabilities after setting aside 40% Gold Reserve against net liabilities on Federal Reserve Notes in circulation, 70 6%.
(c) Maturities of bills discounted and loans: within 10 days, 9,471; to 30 days, 18,064; to 60 days, 24,748; other maturities, 20,790; Total: 73,073.

Some of the countries, notably Great Britain, are parting with large holdings of American securities, which indicates a definite loss of wealth unless there are offsets. But the British government is lending largely to its allies and colonies, and has permitted these countries to also borrow important sums from the British public. Altogether, according to estimates by competent authorities, British sales of American securities, will be nearly offset by these new loans. If the British people have as much property and as much income when the war is over as they had before, exclusive of income from their own government debt, and have no indebtedness abroad not covered by offsets, they will not have gone back during the war.

War Indebtedness and Taxation.

There is a vast amount of confused thinking about the burden of the indebtedness, which in all of the warring countries is held mainly at home. If we were to conceive that the value of all payments upon this indebtedness had to be gathered up in the products of the fields and workshops, and burned, we would then have the idea that is commonly entertained about their oppressive influence. But nothing of this kind is to occur. The payment of indebtedness does not extinguish the capital transferred. It only changes ownership, and is as much a factor in the community, for investments, for the employment of labor, and for the support of enterprise and trade, as before. The losses of the war do not occur when the debts are paid; they occurred when the original expenditures were made.

In the case of Great Britain, if the people of that country have as large an income in the aggregate, outside of their holdings of the war loans, as they had before the war, it is evident that what they receive as debt-holders will be new income, and will offset their new taxation, leaving them with about the same net income as before the war. It will signify that the war was carried on out of current income. The same is true of Germany, which is practically self supporting during the war, and has its productive equipment intact.

The problem of placing the taxation is undoubtedly a delicate one, and likely to be the subject of controversy, but the British Budget indicates that it will not be oppressive to the masses of the people. It is likely to be covered by higher wages, and these may be absorbed and lost sight of in efficiency gains. This would easily be so if wage-earners were brought to see the intimate relationship between volume of product, wages and cost of living. If the large class of people who are not accustomed to save are brought to make contributions to the payment of the indebtedness, the effect will be to accelerate the accumulation of capital, and so make up for the failure to make normal progress during the war. Some people will see nothing in this but a concentration of wealth in the hands of the debtholders, but the practical effect is to enlarge the investment fund, and thus enlarge the plant of equipment and machinery, and so multiply the production of the consumable goods which everybody wants, and in which the real distribution of wealth is ultimately made.

Financial Conditions After the War.

The amount of wealth annually available in any country for investment comes from the current income of the people, and the countries which have not lost in productive capacity or income will very soon after the war have as much capital for investment as in years past. It is probable that in all the warring countries there has been a reduction of stocks, and that at the end of the war there will be a shortage of liquid capital. Capital that had been employed in business has been diverted to war loans and the banks will be encumbered with war securities and loans upon this class of collateral which they will want to clear away. Nevertheless, looking to the future, there should be a good demand for all the government securities paying the present unusual rates of interest, and certainly an active demand for ready money. While the banks will desire to get back into liquid condition, it will doubtless be a systematic policy in all countries to supply ample credit for the resumption of regular business operations.

Discount Rates.

Discount rates of each Federal Reserve Bank in effect May 29, 1916.

	MATURITIES				Agricultural and live-stock paper over 90 days.	Trade acceptances.		Commodity paper. B
	10 days and less.	over 10 days to 30 days, inclusive.	over 30 to 60 days, inclusive.	over 60 to 90 days, inclusive.		To 60 days, inclusive.	Over 60 to 90 days inclusive.	
Boston........	3	3½	4	4	5	3	3	A 3½
New York....	3	4	4	4	5	3½	3½	....
Philadelphia.	3	4	4	4	4½	3	3	A 3
Cleveland....	3½	4	4	4½	5	3	3½	....
Richmond....	......	4	4	4	5	3½	3½	A 3½
Atlanta	......	4	4	4	5	3½	3½	B 3½
Atlanta New Orleans br	......	......	......	......	......	C 3½-4	C 3½-4	....
Chicago......	3½	4	4	4½	5	......	......	....
St. Louis......	3	4	4	4	5	D 3	D 3½	3
Minneapolis .	......	4	4	4½	5	3½	3½	3½
Kansas City..	4	4½	4½	4½	5	3½	3½	3
Dallas.........	......	4	4	4	4½	3½	3½	B 3
SanFrancisco	3	3½	4	4½	5½	3	3½	E

A Rate for commodity paper maturing within 90 days.

B Rate for bills of exchange in open market operations; Atlanta 3½—5½; paper bought, Dallas 3—5.

C Rate for trade acceptances bought in open market, without member bank indorsement.

D A rate of 2 to 4 per cent for bills with or without member bank indorsement was authorized on Dec. 21, 1915.

E Rate for commodity paper maturing within 30 days, 3½ per cent; over 30 to 60 days, 4 per cent; over 60 to 90 days, 4½ per cent; over 90 days, 5 per cent.

THE NATIONAL CITY BANK OF NEW YORK.